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FM AMEMBASSY TOKYO
TO RUEHC/SECSTATE WASHDC PRIORITY 6656
RUEHGV/USMISSION GENEVA PRIORITY 3390
INFO RUEHBJ/AMEMBASSY BEIJING PRIORITY 4945
RUEHRL/AMEMBASSY BERLIN PRIORITY 1473
RUEHBY/AMEMBASSY CANBERRA PRIORITY 2735
RUEHLO/AMEMBASSY LONDON PRIORITY 2163
RUEHFR/AMEMBASSY PARIS PRIORITY 6249
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RUEHKSO/AMCONSUL SAPPORO PRIORITY 0020
RUEHIN/AIT TAIPEI PRIORITY 7116
RUEHBS/USEU BRUSSELS PRIORITY

C O N F I D E N T I A L SECTION 01 OF 03 TOKYO 002268

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E.O. 12958: DECL: 08/18/2018
TAGS: [ETRD](#) [PREL](#) [JA](#) [WTRO](#)
SUBJECT: JAPANESE REACTIONS TO DOHA IMPASSE

REF: TOKYO 2109

Classified By: Ambassador J. Thomas Schieffer for reasons 1.4 (b/d).

11. (C) Summary: Japanese business representatives and trade officials are disappointed by the failure to reach agreement on modalities for concluding the Doha Development Round, although agricultural interests seem relieved. Industry still seeks liberalization in key NAMA sectors, such as electronics and autos, and expressed concern about falling behind countries like Korea in market access amid competitive liberalization resulting from FTAs. GOJ officials are pessimistic about an agreement this year, and stressed the need to craft some positive strategies going forward to mitigate perceived failure. All expected the failure of multilateral talks to generate renewed efforts by Japan to negotiate new bilateral trade arrangements, although reform of sensitive sectors like agriculture may require a WTO agreement to justify unpopular change. End summary.

Introduction

12. (C) EconOffs have solicited local Japanese views on the July WTO ministerial. Sources for this report include Ministry of Foreign Affairs (MOFA) Ambassador to the WTO Jun Yokota, MOFA DG for International Economics Yoichi Otabe, Ministry of Economy, Trade and Industry (METI) Director General Tsunehiro Ogawa, Japan Business Federation (Keidanren) Director for International Economic Affairs Kazuyuki Kinbara.

13. (U) Japanese media report a general sense of disappointment over the failure of the July WTO Ministerial to produce an agreement, especially by industry. Japanese agricultural interests, however, are relieved. Both sides are quoted saying "better no agreement than a bad agreement." A Cabinet shake-up immediately after the Geneva meetings, plus the Olympics, resulted in public debate over the WTO and reform passing out of the media spotlight very quickly. Also, as ministries are still adjusting to the leadership change, internal GOJ discussions are ongoing and contacts stressed that views and observations were their own.

14. (C) The Japan Business Federation (Keidanren) is "greatly disappointed" by the failure of the WTO Ministerial to reach agreement on modalities for concluding the Doha Development Round, according to Director for International Economic Affairs Kazuyuki Kinbara. Kinbara and a small team from his bureau were in Geneva for most of the negotiations. Kinbara admitted Keidanren was quite pessimistic at the start of the talks. They judged WTO Director General Pascal Lamy's initial prediction of a 50-50 chance of success to be "too optimistic". However, as the talks progressed, Keidanren observers became more hopeful. This made the final failure all the more regrettable, Kinbara noted.

15. (C) On Keidanren's core issue, non-agricultural market access (NAMA), agreement was very close, Kinbara noted. Despite the collapse of the talks, Keidanren is confident progress on NAMA modalities "would not have to start from zero," whenever negotiations resume after the summer recess.

16. (C) In Geneva, Keidanren also consulted with the National Association of Manufacturers and the U.S. Business Roundtable to coordinate strategy and positions. On the broad direction of the negotiations, all three business groups have similar views, Kinbara reported, although priorities differed in some cases. On the tariff levels and special safeguards in developing countries, Kinbara felt that U.S. and EU business associations were somewhat "more demanding" compared to Japanese firms.

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17. (C) Keidanren members' priority was to reduce the relatively high remaining EU tariffs on high-tech manufactured products such as electronics and selected autos and auto parts. Under the Lamy draft text, tariff on the former would fall from 14 percent to 5.1 percent, and on the latter from an average of 10 percent to approximately 4.4 percent. In both cases, the reduction is significant, especially for Japanese manufacturers who are increasingly worried about international competitors -- Kinbara mentioned Korean firms in particular -- who benefit from an expanding network of bilateral free trade agreements.

Trade Officials' Concern over the Trading System

18. (C) Yokota expressed concern about the possibility of a long break in negotiations, arguing this could undermine the credibility of the multilateral trading system. If a prolonged hiatus seems likely, he argued, key members should discuss mitigating strategies as well as the status of offers currently on the table. Japan does not see the current compromise as a final goal and would still like to see improvements to the Lamy text, Yokota added. He acknowledged, though, the complex process Lamy went through in order to craft the compromise text. Still exploring options, Ogawa also asked about U.S. willingness to liberalize cotton, if it would help win Chinese and Indian agreement on safeguard measures.

19. (C) Should agreement this year prove out of reach, all sides should strive to show some positive outcome, Yokota and Ogawa agreed. Yokota stressed, though, we should not shift prematurely away from strong commitment to agreement now in order to pursue 'early harvest' goals. He suggested, in addition to "early harvest" options under discussion, improving the dispute settlement understanding might be another intermediate target. Otabe, however, thought an early harvest might prove impossible to produce. Members will differ on what all, or a sufficient number of them have agreed upon so could be included in a early harvest package. Otabe is also skeptical of what might be achieved in a

September WTO meeting; if ministers could not agree in July, it is unlikely members will be able to make significant achievements in September. He also noted that while Indian and Chinese demands for a special safeguards mechanism caused the Ministerial to end without result in July, there were other serious problems sitting further down on the list that could have had the same effect. Argentina has serious outstanding concerns, Otabe notes and Japan continues to have serious answered demands over the numbers of sensitive product exceptions allowed and also over TRQs.

¶10. (C) Japanese trade policy would likely not change with the failure to conclude the DDA, Ogawa felt, but this result would reinforce Japan's need to continue to pursue bilateral and plurilateral arrangements in addition to the WTO. Ogawa acknowledged bilateral arrangements, even a prospective deal with the U.S., would not be sufficient motivation for Japan to push through domestic agricultural reforms. He added, though, Japan should see this as only a grace period and not a long-term reprieve from agricultural reform.

¶11. (C) Yokota mused, somewhat philosophically, that perhaps the long-used approach to negotiating detailed WTO agreements may no longer work. Perhaps WTO members need to reassess how the Organization negotiates. He observed fissures among developing members have made them more conscious of their own interests and less prepared to speak as a bloc. He also acknowledged the real difficulties that some members, notably India and China, face in adjusting to trade liberalization. The U.S. is frequently seen lacking sympathy or understanding for the plight of poorer countries, and sometimes overly concerned about enriching U.S. farmers, he added. Such differences make it harder to reach agreements, even ones that could confer substantial collective benefits. Perhaps

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wealthier WTO members should reexamine some of their assumptions, he concluded.
SCHIEFFER